

Message Text

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PAGE 01 ROME 09572 111145Z

51

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 SAJ-01 NSC-07 SS-20

STR-08 CEA-02 PA-04 PRS-01 USIA-15 L-03 H-03 DRC-01

/178 W

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P R 111030Z JUL 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 5873

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

USMISSION OECD PARIS

AMEMBASSY PARIS

AMEMBASSY SOTCKHOLM

AMEMBASSY TOKYO

TREASURY DEPARTMENT WASHDC

LIMITED OFFICIAL USE ROME 9572

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

PASS FRB

1. SUMMARY. SINCE MID-JUNE BANK OF ITALY HAS CONTINUED

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PAGE 02 ROME 09572 111145Z

TO HAVE MODEST GAINS IN RESERVES FROM EXCHANGE MARKET

INTERVENTION AND LIRA HAS STRENGTHENED PROGRESSIVELY. ALTHOUGH BANK HAD OVERALL DEFICIT END OF JUNE DUE TO HEAVY LOSSES IN FIRST HALF OF MONTH, FIRST PART OF JULY SHOWS NET RECEIPTS. MONETARY MOVEMENTS DATA THROUGH FIRST 5 1/2 MONTHS SHOW ADJUSTED BALANCE OF PAYMENTS DEFICIT OF 6.3 BILLION DOLLARS. END SUMMARY.

2. HEAD OF BOI EXCHANGE OPERATIONS MARIO ERCOLANI TOLD ASSISTANT TREASATT JULY 10 THAT SINCE JUNE 14 BANK HAS CONTINUED TO MAKE MODEST NET PURCHASES OF FOREIGN EXCHANGE. HE EXPRESSED VIEW THAT THIS WAS RESULT OF G-10 ANNOUNCEMENT ON GOLD ACCORD WHICH GAVE INITIAL IMPETUS AND THAT CONTINUATION OF POSITIVE DEVELOPMENTS WAS PRIMARILY DUE TO SUCCESS OF TIGHT CREDIT POLICY. TIGHT MONEY SITUATION IN ITALY WAS INDUCING ITALIANS TO REPATRIATE MONEY THEY HAD DEPOSITED ABROAD AND TO SEEK FOREIGN LOANS. IN SPITE OF NET GAINS OF FOREIGN EXCHANGE DURING LATTER HALF OF JUNE, HOWEVER, BOI POSITION WAS IN DEFICIT FOR MONTH OF JUNE DUE TO HEAVY LOSSES EXPERIENCED DURING FIRST 15 DAYS.

3. ERCOLANI HAD JUST RETURNED FROM BASLE MEETING AND CLARIFIED THAT CENTRAL BANKERS "BAIL-OUT" AGREEMENT FOR COMMERCIAL BANKS IN FINANCIAL EXTREMIS, WHICH HAD RECEIVED COVERAGE IN ITALIAN PRESS AS WELL AS LONDON FINANCIAL TIMES, WAS NOT TO BE EXTENDED TO BANKS WHICH HAD MISMANAGED FUNDS AND PRECIPITATED CRISIS THEMSELVES. IN RESPONSE TO QUESTION REGARDING IMF EXPERTS VISIT TO ROME END OF JUNE, ERCOLANI COMMENTED THAT FUND OFFICIALS HAD EXPRESSED CONCERN ABOUT ITALIAN IMPORT DEPOSIT AND RESTRICTIONS ON FOREIGN EXCHANGE CONTROLS FOR TOURISM. ITALIAN RESPONSE TO THESE CRITICISMS HAD BEEN THAT MEASURES WERE NECESSARY IN VIEW OF SEVERITY OF ITALY'S ECONOMIC SITUATION. WHEN ASKED ABOUT PROSPECTS FOR EC CONSOLIDATION OF SHORT-TERM CREDIT TO ITALY, HE OBSERVED THAT EC REALLY HAD NO CHOICE TO DO OTHERWISE SINCE PAYMENT IN SEPTEMBER OF ALMOST \$2 BILLION WAS NOT POSSIBLE FOR ITALY. REFERRING TO COMMISSION PROPOSAL FOR COMMUNITY LOAN, HE ALSO NOTED THAT EC PARTNERS APPEARED TO BE DEVOTING LIMITED OFFICIAL USE

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PAGE 03 ROME 09572 111145Z

CONSIDERABLE EFFORT TO ARRANGE FINANCIAL RESCUE OPERATION FOR ITALY, WHICH IN FACT, ITALIANS HAVE NOT REQUESTED.

4. PRELIMINARY DATA ON MONETARY MOVEMENTS FOR FIRST HALF OF JUNE SHOW DEFICIT OF \$259 MILLION, OF WHICH FOREIGN EXCHANGE DECLINED \$360 MILLION WHILE COMMERCIAL BANKS NET FOREIGN POSITION IMPROVED BY

\$99 MILLION. DATA FOR FIRST FIVE AND ONE HALF MONTHS OF 1974 SHOW RECORDED DEFICIT OF \$4,198 MILLION, BUT THERE WERE COMPENSATORY EURO-MARKET LOANS OF \$2,150 MILLION IN ADDITION, INDICATING UNDERLYING DEFICIT OF \$6,348 MILLION. DEFICIT WAS FINANCED PRIMARILY BY DECLINE IN CONVERTIBLE CURRENCY HOLDINGS OF \$1,270 MILLION, INCREASE IN MEDIUM AND LONG-TERM LIABILITIES OF \$2,069 MILLION AND WORSENING IN NET FOREIGN POSITION OF COMMERCIAL BANKS OF \$1,015 MILLION AND EURO-MARKET LOANS OF \$2,150 MILLION.

5. SINCE JUNE 14, LIRE HAS SHOWN STEADY STRENGTHENING OVERALL AGAINST BOTH DOLLAR AND EC CURRENCIES. ON JUNE 14, WEIGHTED AVERAGE DEPRECIATION WAS 18.73 PERCENT (BOI INDEX) AND 23.83 PERCENT (24 ORE INDEX), AND ON JULY 10 IT WAS RESPECTIVELY 17.68 PERCENT AND 22.03 PERCENT. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ESTIMATES, FINANCIAL MARKETS, LIRA, FOREIGN EXCHANGE TRANSACTIONS, BALANCE OF PAYMENTS DEFICITS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME09572
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740185-0141
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740757/aaaabxaj.tel
Line Count: 132
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2002 by worrelsw>; APPROVED <20 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN EXCHANGE MARKET DEVELOPMENTS PASS FRB
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005